

## **Introduction**

Each year the Maine Department of Audit performs the Single Audit of the State of Maine, qualifying the state to receive over **\$2.6 Billion (FY 2004)** annually in federal assistance for specific grants and programs. We audited programs that comprise 91% of that amount. Audit examined the State's financial statements, internal control systems and compliance with laws and regulations. The department identified 81 findings in our 2004 report. Seventy-seven of these findings were related to federal programs and were categorized as reportable conditions in internal and/or noncompliance with federal requirements. Eight of the 77 were considered material weaknesses, which resulted in the qualification of the report on internal control and compliance for 3 federal programs. Other important concerns were reported in our Management Letter for FY 2004.

Despite recent retirements, combined Auditor experience at the department currently totals 210 years, representing a significant wealth of institutional knowledge which facilitates the evaluation of the State's accounts and programs. Thirty-nine other states are involved their single audit, and three who contracted out now seek to resume this critical function due to rising costs and/or concerns about audit quality. Year after year, the problems uncovered by Audit become the basis of further investigations by federal auditors, an example being the Adoption Assistance program issues first identified by Audit. A Quality Control Review of the Department of Audit by federal auditors over a week in August 2005 resulted in praise for our work.

Operating on behalf of the Legislature and requiring accountability by the Executive Branch, the Maine Department of Audit is non-partisan and independent. Federal guidelines established in "Government Auditing Standards" require independence. While we cannot participate in correction of the problems we find, I believe improved communication can help. Further, Audit has significantly increased output in the last year so that we are closer to identifying problems in real time, as they occur. With nine CPAs, eleven CIAs, two CISAs, two JDs, and six other individuals with advanced degrees, Audit staff provides our State with unparalleled professional assessment of program compliance and financial statement presentation. Many of our auditors are hired away by other departments because of their experience and knowledge of federal requirements and sound audit procedures.

## **Delivery of Single Audit Report 2004**

A priority of my Administration as State Auditor is to improve communication of audit findings to all interested parties. I have or will meet with the various Committees of Jurisdiction to report and discuss those findings relating to their policy areas.

- Field work for the FY2004 Financial Statement Opinion was complete as of March 18, 2005: it was reported April 15, 2005, 51 days earlier than the prior year.
- The 2004 Single Audit Report was complete as of May 16, and issued June 30, 2005, 30 days earlier than the previous year. A copy was delivered to the Governor, each State Legislator, the State Law Library, each Commissioner, agency accountants, and the federal government.

- Audit reports for the years 2000 – 2004 are posted on the internet at: <http://www.maine.gov/audit/reports.htm>

- To personally communicate findings, the State Auditor met with:

The Governor,  
President of the Senate,  
Speaker of the House of Representatives,  
Commissioner of the Department of Health and Human Services,  
The Commissioner of the Department of Administrative and Financial Services, and  
The Joint Standing Committee on Health and Human Services

### **General Summary**

- Audit issued an **unqualified opinion on the financial statements** effective March 18, 2005: the State of Maine's financial statements fairly present its financial position and the results of operations for the year ended June 30, 2004. This is the 3rd year that an unqualified opinion was issued, reflecting the improvements made in accounting and financial reporting.
- We **qualified our opinion on compliance with federal regulations** for 3 programs: Foster Care, Social Services Block Grant and the Child Care Cluster. The reasons:
  - Foster Care: Management of federal cash/allowability (04-45); Title IV-E—Eligibility (04-43); Reporting (04-46)
  - Social Services Block Grant: Allowability (04-62); Earmarking (04-50)
  - Child Care Cluster: Reporting (04-40)
- We audited 25 programs in FY 2004 that covered \$2.4 Billion in federal assistance, of which 11 were DHHS programs that covered \$1.8 Billion. 22 programs were in compliance in all material respects, although we identified 77 control deficiencies.
- The State administers over 300 different federal programs, over 80 at DHHS. Of \$18.7 Million in questioned costs for FY 2004, \$17.9 Million are in DHHS programs. The remaining questioned costs were identified at the Department of Labor (\$13,000) and the Department of Administrative and Financial Services (\$789,000)
- Four findings on the financial statements involve: capital assets; lottery receivables; and interfund payables, receivables and transfers.

### **Dialogue with DHHS, DAFS & OSC**

- Audit is responsible for following-up on significant audit findings. To explain concerns in detail, the State Auditor has met several times with the:
  - Commissioner of Health and Human Services
  - Commissioner of Administrative and Financial Services
  - New Internal Audit Director at DHHS

- New Internal Audit Director at OSC

***The State Auditor asked for regular meetings with DHHS Commissioner Nicholas and staff in the summer of 2005. Great progress was made.*** Dialogue moved us forward in a positive manner. Example: detailed discussion of specific convoluted account structures, cost allocation plan, financial management issues.

***Commissioner Nicholas clearly directed staff to provide solutions, not excuses. Commissioner Wyke of DAFS added strength, vision and coordination to this problem-solving.*** Some culture change began. Resolving problems identified in the FY 2004 Single Audit is clearly a top priority for Governor Baldacci and his administration. I will meet with the panel advising him on a new DHHS commissioner to identify qualities needed to continue this growth and culture change.

### **Summary of Significant Problem Areas**

- 81 - findings reported in total, 77 of which are federal findings.
- 19 - Financial management & reporting
- 4 - Financial statement
- 5 - Eligibility
- 13 - Allowability
- 6 - Information systems, 4 at DHHS
- 13 - Management of federal cash
- 8 - Subrecipient monitoring
- 13 - Other compliance issues & errors

### **Conclusion**

- Audit completed fieldwork on the FY 2005 financial statements on December 9, 2005, and the final opinion will be completed before the end of January, in record time, allowing the State to submit, for the first time, its Comprehensive Annual Financial Report for consideration in the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting. Approximately 40 states receive this annual award.
- Audit is on target to complete the Single Audit for FY 2005 by March 31, 2006, earlier than ever before.
- The Department of Audit performed several additional audits in 2005: ACES, purchasing cards, and cash. These audits will become part of the FY 2005 Single Audit and may be reported separately.
- An audit by its very nature is critical and intended to report significant deficiencies in compliance with state and federal regulations, internal controls and financial reporting. Despite the number of deficiencies noted in the Single Audit Report, we should all recognize that most programs are adequately managed and that the vast majority of transactions are properly recorded and are in compliance with state and federal regulations.

## *Summary of Questioned Costs, Significant DHHS and Financial Findings*

2004 Audit Finding	Program	Bureau	Finding Title	2003 Audit Finding	Known Questioned Cost <sup>1</sup>	Likely Q'd Cost <sup>2</sup>
04-45	Foster Care <sup>3,4</sup>	DHHS Program Accounting & Cash Management	Federal draws in excess of reported expenditures	03-59	\$12,400,000	
04-62	Various <sup>3,4</sup>	DHHS Program Accounting & Cash Management	Costs charged twice, cost allocation plan errors not detected	03-71	\$1,979,288	
04-50	SSBG <sup>3,4</sup>	DHHS Community Services Center	Funds not spent in accordance with earmarking requirements	03-68	\$1,900,000	
04-44	Foster Care	DHHS Program Accounting & Cash Management	Information system costs not charged in proportion with benefits received	03-60	\$530,340	
04-46	Foster Care / Adoption Assistance <sup>3,4</sup>	DHHS Program Accounting & Cash Management	Insufficient internal controls to ensure accurate reporting	03-61	\$420,224	
04-30	Immunization	DHHS Program Accounting & Cash Management	Inadequate controls procedures over reporting/period of availability		\$390,085	
04-36	Child Support	DHHS Program Accounting & Cash Management	Transfers for program services in excess of costs claimed	03-47	\$101,331	
04-52	Medicaid	DHHS Family Independence/Technology Services	Medicaid claims paid on behalf of ineligible recipients/inadequate controls		\$40,266	\$7,900,000
04-43	Foster Care <sup>3,4</sup>	DHHS Child & Family Services	Payments made on behalf of ineligible recipients	03-56	\$38,267	\$617,939
04-47	Adoption Assistance	DHHS Child & Family Services	Payments made to ineligible clients		\$34,831	\$202,444
04-42	Foster Care	DHHS Child & Family Services	Override of controls to ensure that costs are claimed correctly	03-58	\$19,196	
04-41	Foster Care	DHHS Child & Family Services	Duplicate costs paid		\$18,999	
04-55	Medicaid	DHHS Medical Services/Child & Family Services	Unallowable case management claim payments		\$7,462	\$10,816,331
04-59	Medicaid	DHHS Program Accounting & Cash Management	Negative cash balances continued			

<sup>1</sup> Known questioned costs are specifically identified instances of non-compliance.

<sup>2</sup> Likely costs are projected according to federal regulations from a sample.

<sup>3</sup> Finding of **material noncompliance** with federal requirements.

<sup>4</sup> Finding of **material weakness in internal control** over compliance.

## *Summary of Questioned Costs, Significant DHHS and Financial Findings (Continued)*

2004 Audit Finding	Program	Bureau	Finding Title	2003 Audit Finding	Known Questioned Cost <sup>1</sup>	Likely Q'd Cost <sup>2</sup>
04-65	Various	DHHS Program Accounting & Cash Management	Insufficient internal controls over cash management			
04-58	Medicaid	DHHS Program Accounting & Cash Management	Medicaid financial reports not accurate and not reconciled; matching controls insufficient			
04-40	Child Care Cluster <sup>3,4</sup>	DHHS Program Accounting & Cash Management	Federal financial reports not accurate	03-54		
04-27	Immunization	DHHS Health/Program Accounting & Cash Management	Inadequate controls over cash management and timely reimbursement	03-40		
04-67	Various <sup>4</sup>	DHHS Program Accounting & Cash Management	Administration of federal funds inadequate	03-30 03-05		
04-01	Capital Assets	DAFS Administrative & Financial Services	Inadequate controls for accurate recording	03-02		
04-02	Interfund payables & receivables	DAFS Administrative & Financial Services	Inadequate controls for accurate recording			
04-03	Interfund Transfers	DAFS Administrative & Financial Services	Inadequate controls for accurate reporting			
04-04	Lottery	DAFS Administrative & Financial Services	Insufficient controls over account receivable			
04-74	Vocational Rehabilitation	DOL Rehabilitative Services	Inadequate controls to ensure period of availability compliance		\$13,025	
04-09	Various	DAFS Bureau of Information Services	Excess working capital reserve balance	03-11	\$788,965	

<sup>1</sup> Known questioned costs are specifically identified instances of non-compliance.

<sup>2</sup> Likely costs are projected according to federal regulations from a sample.

<sup>3</sup> Finding of material noncompliance with federal requirements.

<sup>4</sup> Finding of material weakness in internal control over compliance.